

MINUTES
February 23, 2004
Stevens T Mason Building
7th Floor, 1921 Department of Conservation Conference Room
Lansing, Michigan

**NATURAL RESOURCES COMMISSION
POLICY COMMITTEE ON FINANCE AND ADMINISTRATION**

**Investments, Fund Balances, Budget Update,
Committee and Commission Goals**

PRESENT:

Commissioner Bill Parfet, Chair
Commissioner Frank Wheatlake
Director K. L. Cool
Administrative Services Deputy Kelli Sobel, DNR
Upper Peninsula Field Deputy Jim Ekdahl, DNR
Financial Services Chief Joe Frick, DNR
Budget Development and Support Services Chief Sharon Schafer, DNR

OTHER ATTENDEES:

Merino Bernadi, Snowmobiler
Rich Bowman, Trout Unlimited
Donald Carroll, Ogemaw Hill Snowmobile Club
Liesl Clark, Senate Democratic Staff
Dana Debel, Governor's Office
Traci Gorman, Representative Sue Tabor's Office
Dick Grange, Friends of White Pine
Mark Haas, Treasury
Jennifer Harrison, State Budget Office
Nancy Krupiarz, Rails to Trails
Lavern Longroy, Ogemaw Hill Snowmobile Club
Kirk Lindquist, House Fiscal Agency
Bill Manson, Michigan Snowmobile Association
Paul Nelson, Treasury
Todd Scott, MMBA
Deborah Apostol, DNR
Tom Benson, DNR
Jim Dubbs, DNR
Dave Freed, DNR
Amy Henderson, DNR
Tony Herek, DNR

Dennis Knapp, DNR
Mindy Koch, DNR
Ann LeClaire-Mitchell, DNR
Alan Marble, DNR
Kristen Morningstar, DNR
Bill Moritz, DNR
Theresa Pohl, DNR
Lowen Schuett, DNR
Jane Schultz, DNR
Tomia Stuart, DNR
Joe Taylor, DNR
Laura Willard, DNR
Jim Wood, DNR
Brad Wurfel, DNR

Chairman Parfet called the meeting to order at 9:05 a.m.

INVESTMENTS

Joe Frick gave a brief update on Department of Natural Resources (DNR) investments. Funds are held for investment by law or constitution and are not available for program spending.

Mark Haas provided an update on Asset Allocation for DNR Related Funds. He said the fund numbers referenced are as of December 31, 2003. DNR now has \$82 million invested in equities across four funds. \$256 million are in government bonds, and \$245 million are in short-term investments (near cash) for a total of \$583 million. The \$583 million includes both the amount available for investment and the amount held for operating purposes. **Commissioner Wheatlake** asked when our funds will be fully invested. **Mark Haas** commented that depends on what happens in the market, but hope to be close to fully invested by the end of this fiscal year.

Chairman Parfet inquired if there was a way to note our gains on the equity component. **Mark Haas** noted the cost of our equity investments at the time of purchase and what their market value was as of January 31, 2004 and therefore what the change was. These are not annualized rates of return. The original purchase was \$77.5 million and have now increased in value to just over \$84 million for a gain of about \$6.6 million between September 2003 and January 2004. These are not performance figures, only changes to show what is happening in the market.

Chairman Parfet commented that the State of Michigan investments strength and capabilities are impressive and he recognizes that the responsibility for investment decisions is with Treasury. We expect between now and the end of March 2004 the funds will be fully invested. He said that when we set the original asset allocations we wanted to get to this point and then we would look at them again. We are waiting to get fully invested against the original target asset allocations we set, and then we will go back and look at the program and reset asset allocations again.

Rich Bowman commented he was pleased to see the investment results so far and asked how long it will be before we can start to use the return to do more work for the program. He said it is good to build equity but, from a constituent standpoint, our goal is not to make large funds but to

get more working money from what funds we have. He said when we make fund balances bigger we draw attention to fund balances. Our primary goal is to earn more revenue for the benefit of the resources.

Merino Berdino stated that he has been trying to work with DNR to get things done for snowmobilers. He said that \$600 million is sitting there and DNR is enacting a \$5 trail sticker cost increase, that DNR does not need and he recommends to the Natural Resources Commission (NRC) that the \$5 increase should be put on hold because this money should be reinvested in the DNR not the market. Discussion ensued.

Chairman Parfet stated that this Committee has spent hundreds of hours discussing funds and how they are spent. The Committee also discussed how to improve the return on our financial assets. **Chairman Parfet** said that when we embarked upon this effort we recognized that the DNR, unlike most Departments in the state, has its own funds. These funds come from the citizens of the state. A form of a tax, user fees end up in restricted funds to provide financial assets to help the natural resources assets over time. With the help of those attending these committee meetings we have looked at ways to increase the earnings power on those monies that are collected from the citizens of this state.

FY 2003 YEAR END CLOSING REVIEW OF FUND BALANCES

Chairman Parfet said that we do not want our restricted funds to become a target and we want to get the proper appropriation so we can spend money collected on our programs. **Kelli Sobel** reviewed a handout that showed DNR fund balances for fiscal years 2001, 2002 and 2003 and revenue received in fiscal year 2003. She then reviewed the funds and their balances. **Chairman Parfet** said that this Committee has watched these snowmobile balances increase over the last number of years and we have asked that they be spent down but we were unable to get the appropriations necessary to be able to spend them. We met earlier with the snowmobile groups who asked that we raise the fees and in return they wanted us to commit to grooming and providing more enforcement on the trails. We did that but were unable to get funding appropriated so the balances went up. **Kelli Sobel** indicated the Governor has recommended a \$4 million increase for snowmobile in the supplemental and a \$1 million base increase for snowmobile programs. Discussion ensued.

Chairman Parfet asked whether any of the fund balances were too high or too low. **Kelli Sobel** responded that Off-Road Vehicle (ORV), DRIP and Turkey Funds were too high. The MacMullan Conference Center (RAM), Park Improvement and Forest Development Funds are too low and will be watched closely. **Commissioner Wheatlake** requested that we discuss the Turkey Fund balance at our next meeting. **K.L. Cool** stated that his largest concern regarding funds is Parks. He stated that we cannot maintain the operations of the state parks and make the needed improvements relying on camping and entrance fees only.

FISCAL YEARS 2001-2003 REVENUE AND EXPENDITURES

Kelli Sobel reviewed the Departments fiscal years 2001-2003 Revenue Appropriations and Expenditures. The ORV appropriation is around the same as the revenue coming in and the expenditures are dramatically lower than the appropriations we have. Parks is overspending their revenue; DRIP and Turkey are both underspending both the appropriation and revenue that is

coming in. **Chairman Parfet** commented that both **Commissioner Wheatlake** and he were under the impression that the lack of appropriations was a larger problem than it has turned out to be. A lot of the gap is because the expenditures have not been up to the appropriation level.

Kelli Sobel stated that due to the Executive Directives the Department has turned in between 250-300 cars, eliminated memberships and subscriptions, cut our cell phones and procurement credit card usage in half and eliminated out of state travel, all of which caused more money to lapse. **Commissioner Wheatlake** asked that at the next meeting we take some of our lapsed funds and find out why the money was not spent. **Chairman Parfet** asked that at the next meeting we show the Game and Fish, ORV, DRIP and Turkey Funds and what was lapsed and why.

Rich Bowman said that there continues to be discussions in the Legislature regarding Representative Tabor's House Joint Resolution J and Representative Richardville's Waterways Legislation. Representative Tabor is planning to hold a testimony only hearing in March or April to get more input on this Resolution as her desire is to protect the funds first and foremost.

Dennis Knapp said Senate Joint Resolution F and Senate Bill 915, Waterways Trust Fund, was introduced by Senators Allen and Barcia. This legislation is similar to the House legislation that was written to try and protect Waterways funds, but there is another part that creates a new grant program that restructures current spending with a heavy focus on capital outlay as opposed to current operational programs. **Chairman Parfet** asked to have a Legislative update at the next meeting.

BUDGET UPDATE INCLUDING EXECUTIVE ORDER AND FY 2005 BUDGET

Kelli Sobel stated that our general fund monies in fiscal year 2004 are down to \$25 million. We were at \$58 million of couple of years ago, so we have decreased our General Fund by over half. Of the \$25 million, \$10 million is in Swamp Tax and Commercial Forest; \$5.2 million is in Forest Fire; \$2 million goes to TB; and \$3.7 million to Law. Every State budget received economic factors this year, which was an increase of 3% and then another 4% for a total of 7% increase, plus insurances and retirement. Then we were reduced 5% for budgetary savings. Every budget received a reduction for the human resources optimization project, which is the centralization of all benefits coordination. The biggest change in our budget is the transfer of Payment in Lieu of Taxes (PILT) on purchased lands to revenue sharing. The Governor's budget recommends that PILT becomes the first call on revenue sharing so the first \$10 million will fund PILT. The State Education Tax is eliminated and PILT will be funded with General Fund monies. Senator Michelle McManus has scheduled a Committee hearing next week on PILT. The PILT payments that were due on February 17, 2004 were not paid. **Commissioner Wheatlake** commended Governor Granholm for bringing the PILT issue into focus. **Kelli Sobel** said she would make a presentation to the Senate Subcommittee on behalf of DNR. DMB will send staff to discuss revenue sharing. **Chairman Parfet** commented that this is not our fight and we can't solve the problem. The Executive branch has agreed that they will take the lead on this issue. **Kelli Sobel** stated that we have committed to the Governor that as a Department and Commission we are fully supportive of the Governor's recommendation. We will be available to provide basic factual information on the program and ownership.

REVIEW OF DEPARTMENT STAFFING LEVELS

Kelli Sobel said that Commissioner Charters asked for a staffing levels update. In 1996 we had 1630 filled positions. In 1999 we had 1503 filled position, which was the time of the second early retirement. In 2004 we are down to 1466 filled positions, but we have 56 funded vacancies. Wildlife is down 5.6 percent, but they have 16 funded vacancies so as soon as they fill those they will be up above the levels of 1996. Fisheries has 2 funded vacancies, they are down almost 9 percent. Parks is down 27 percent and has only 4 funded vacancies. It shows that Parks had to switch its funding from filling positions to funding ongoing operations because of lack of economic increases and the lack of general fund now in the Parks budget. Forestry is down 8 percent and has 12 funded vacancies, but this still won't put them up to 1996 levels. Law is up 6 percent from 1996 and has 20 funded vacancies. They will be adding 20 conservation officers in their next academy so they will not have any funded vacancies. Administration is down 5.4 percent, which is equivalent to 16 positions. There is 1 funded vacancy, which is a clerical position in the field. Discussion ensued.

REVIEW OF 2003 COMMITTEE AND COMMISSION GOALS

Kelli Sobel reviewed accomplishments for 2003. Some of the key achievements were: develop investment strategies which were adopted by the full Commission in June and Treasury began implementing those strategies; review all funds to minimize the number of funds; two or three 3 funds were eliminated in 2003; assist the Department in managing the impact of budget reductions; provide legislative support for statutory changes to move the fee setting authority; provide legislative support for statutory changes deemed necessary by the federal audit, full funding for finalizing the audit was obtained and snowmobile changes due to the effort of Representative Pastor passed in the fall; the one item that was not accomplished was devising a method to protect the Game and Fish Trust and other large funds. We had numerous discussions but didn't move forward on any statutory or constitutional changes on this issue, but the 2005 Executive Budget recommendations do not include any taking or use of those funds; reviewing fees for possible increases to maintain services impacted by inflation or General Fund support reductions. The parks entrance fee increase was reviewed in this Committee and was adopted by the Legislature, decreasing the reliance on General fund; we are down to \$28 million in fiscal year 2004 and \$25 million in fiscal year 2005; and oversee the audit universe activities – the audit universe was finalized and adopted by this Committee.

ADOPT 2004 COMMITTEE GOALS

Kelli Sobel went over the recommended goals for 2004 which include continuing to monitor the investment strategies; working to develop a long-term solution to PILT; continuing to work to get the last statutory changes necessary for federal audit which are in the area of ORV; looking at devising a method to protect the Game and Fish Trust and other large funds; bring back camping fee increase recommendation; assisting in obtaining the necessary authorities to spend restricted fund balances; acting as an audit committee reviewing both external and internal audit activities.

RECOMMEND 2004 COMMISSION GOAL RELATED TO BUDGET/FINANCE

Kelli Sobel stated that the NRC asked this Committee to submit a goal on Payment in Lieu of Taxes which would develop a long-term solution to the issue. The recommended goal was

discussed. **Rich Bowman** asked that something be added to the 2004 Committee Goals that relates to the concept that it is not a user pay system, but an all user pay system. **Chairman Parfet** asked that we add on to the 2004 Goals concerning fees including the concept of fair share for all who are touched by the resources. **Commissioner Wheatlake** said he would like to add another goal that incorporates the NRC's goal of looking at "top- line" development and he wants to be able to augment that in this Committee through creative ideas. **Chairman Parfet** suggested maybe we look at ways to foster increases in the use of the natural resources of Michigan. We will make those two modifications to our 2004 Committee Goals. **Merino Bernio** suggested that one Committee Goal should be to better communicate with people regarding fee increases, etc. **Chairman Parfet** stated that the NRC itself has a goal that transcends what we do as a subcommittee. Discussion ensued.

Chairman Parfet recommended approving the goals for the Policy Committee for 2004 and was supported by Commissioner Wheatlake. The Policy Committee Goals for 2004 were approved. The NRC Goal regarding PILT was recommended to the full NRC for adoption.

The next Policy Committee meeting will be held in late April or early May 2004. The Agenda topics will include: Camping Fees; Fund Balances against their targets and action plans; lapses of the Game and Fish, ORV, DRIP and Turkey funds; protecting restricted funds; and an update on investments.

The Minutes from the September 29, 2003 NRC Policy Committee on Finance and Administration were approved by the Committee. All supported; none opposed.

Chairman Parfet adjourned the meeting at 11:10 a.m.

William U. Parfet, Chair
NRC Policy Committee on Finance
and Administration

Date